

Electric Choice Question 16: *How has Michigan, and how have other jurisdictions, treated the various customer classes in terms of participation in restructured retail markets or partially restructured retail markets?*

Executive Summary

1. Michigan has treated the various customer classes essentially the same in terms of participation in the deregulated generation markets. However, in order to ensure that the various program participants are protected, the specific participation rules for residential customers are more lenient than those for business customers
 2. Throughout the history of deregulation in Michigan, beginning with the experimental programs for both Consumers Energy and DTE Electric in the late 1990s, Alternative Electric Suppliers have "cherry picked" the markets and served only the large commercial and industrial customers with favorable load factors and more attractive credit profiles. Participation by residential customers is virtually non-existent
 3. The cost recovery methodologies for deregulated generation market implementation costs, generation fixed costs and residential rate subsidies have been inconsistent over the history of deregulated generation markets and resulted in the creation of "winners and losers". A limited number of large commercial and industrial customers have had a relatively free option to switch electric suppliers, largely at the expense of small commercial and residential customers, and regulated utility power supply planning has been made more difficult by this uncertainty in customer load
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- 1. Michigan has treated the various customer classes essentially the same in terms of participation in the deregulated generation markets. However, in order to ensure that the various program participants are protected, the specific participation rules for residential customers are more lenient than those for business customers.**

The key differences in terms of participation in the deregulated generation markets between residential and business class customers include the minimum participation term, the return to full service notification requirements and the applicability of market priced power charges. These participation differences were established to help ensure that the various program participants are protected in consideration of the expected difference in knowledge level between the customer classes about deregulated generation markets.

Residential customers have a minimum stay requirement on deregulated generation market service of only one month and can return to full service rates after that period without being subject to any additional charges. Business customers, on the other hand, have a minimum stay requirement on deregulated generation market service of 24 months. Should they return to full service before completion of that minimum stay period, they are subject to additional market priced power charges.

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Residential customers can provide notice of their return to full service at any point throughout the year whereas business customers must provide notice by December 1st of each year of their intent to return to full-service for the following summer. A failure by business customers to provide timely notice will subject those customers to additional market priced power charges plus a 10% adder.

When residential customers return to full-service rates, they are subject to a minimum stay of 12 months before they are eligible to return to deregulated generation market service. When business customers return to full-service rates, they must make an election as to the terms of their return. Business customers can elect to stay on full-service rates for a minimum period of 12 months and avoid being subject to market priced power charges or they can elect to stay on full-service rates on a month-to-month basis and be subject to market priced power charges.

The participation rules for residential customers were established based upon the expectation that they were less knowledgeable about deregulated generation market participation rules. The business customer participation rules were established, in part, to protect the regulated utilities that had to perform power supply planning on both an annual and longer-term basis. Any change in the deregulated generation market participation cap will only exacerbate the challenge for the regulated utility to make long-term planning decisions.

- 2. Throughout the history of deregulation in Michigan, beginning with the experimental programs for both Consumers Energy and DTE Electric in the late 1990s, Alternative Electric Suppliers have "cherry picked" the markets and served only the large commercial and industrial customers with favorable load factors and more attractive credit profiles. Participation by residential customers is virtually non-existent.**

As shown in the utility specific charts in the response to Electric Choice Question 1, business customers are the sole participants in the deregulated generation market, with three to four times more primary (high voltage) business customer load than secondary (low voltage) business customer load. Residential customer participation has been virtually non-existent.

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More recently, several AESs have publicly indicated (via press release or implementation of changes to the MISO market commercial model) their intention of serving residential customers. However, we have observed no material movement in the residential customer class by the AESs, which reflects the fact that AESs continue to cherry pick the customers they serve.

3. The cost recovery methodologies for deregulated generation market implementation costs, generation fixed costs and residential rate subsidies have been inconsistent over the history of deregulated generation markets and resulted in the creation of “winners and losers”.

- The costs of developing and implementing the deregulated generation market programs were borne by all customers, regardless of whether they participated or even had a reasonable opportunity to participate in the deregulated generation market.
- The costs associated with the residential rate subsidy (rate skew), on the other hand, were only borne by full-service customers; deregulated generation market participants were able to completely avoid those charges.
- Finally, the responsibility for the recovery of fixed costs for assets built for all customers, including deregulated generation market participants, is assigned to full-service customers only.

As a result, a limited number of large commercial and industrial customers have had a relatively free option to switch electric suppliers, largely at the expense of small commercial and residential customers, and regulated utility power supply planning has been made more difficult by this uncertainty in customer load. Any increase in the deregulated generation market participation cap would further increase the cost burden for residential and small business customers.